

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 12622 01 OF 02 091205Z

12

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 DRC-01 /205 W

----- 078123

P 090846Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9073

INFO AMEMBASSY ISLAMABAD PRIORITY

AMCONSUL KARACHI PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 12622

USADB

E.O. 11652: ADS, DECLAS 2/31/74

TAGS: EAID, EFIN, PK

SUBJECT: PROPOSED ABD SUPPLEMENTARY LOANS FOR KARACHI

ELECTRIC SUPPLY CORP. PROJECT (PAKISTAN)

FOR NAC AGENCIES

SUMMARY: ADB MANAGEMENT PROPOSES TWO SUPPLEMENTARY LOANS TOTALING \$9.0 MILLION EQUIVALENT (\$6.8 MILLION FROM ORDINARY CAPITAL RESOURCES AND \$2.2 MILLION FROM SPECIAL FUNDS RESOURCES) TO GOVT OF PAKISTAN TO FINANCE FOREX COST OVERRUN FOR POWER GENERATION, TRANSMISSION AND DISTRIBUTION PROJECT OF KARACHI ELECTRIC SUPPLY CORP. IN PAKISTAN. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY

1. ADB DOC. R89-73 WITH ATTACHMENTS DESCRIBING PROPOSED
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 12622 01 OF 02 091205Z

LOANS POUCHED ADDRESSEES NOV. 6. BOARD CONSIDERATION

SCHEDULED NOV. 22

2. ADB MANAGEMENT PROPOSING \$6.8 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES AND \$2.2 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF KARACHI ELECTRIC SUPPLY CORPORATION, LTD. (SESC). PROCEEDS WILL PROVIDE ADDITIONAL FINANCING TO COVER \$9.0 MILLION FOREX SHORTFALL REQUIRED FOR CONTINUATION AND COMPLETION OF PROJECT. PROPOSED TERMS ARE 25-YEAR AMORTIZATION INCLUDING 5-YEAR GRACE PERIOD, 7.5 PERCENT INTEREST FOR LOAN FROM ORDINARY CAPITAL RESOURCES, AND 40-YEAR AMORTIZATION INCLUDING TEN-YEAR GRACE PERIOD, 1.0 PERCENT INTEREST FOR LOAN FROM SPECIAL FUNDS RESOURCES. ISLAMIC REPUBLIC OF PAKISTAN TO BE BORROWER AND KESC TO BE EXECUTING AGENCY.

3. ON OCT. 12, 1972 BANK APPROVED TWO LOANS TOTALING \$26.5 MILLION FOR THIS PROJECT. PROCEEDS OF \$14.3 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES WERE TO BE APPLIED TO FINANCING OF ADDITION OF 125 MW GENERATING UNIT (UNIT #4) TO KORANGI THERMAL PLANT AND CONSULTING SERVICES. \$12.2 MILLION LOAN FROM SPECIAL FUNDS RESOURCES WAS FOR PROCUREMENT OF ASSOCIATED TRANSMISSION AND DISTRIBUTION EQUIPMENT. SUBSEQUENT BIDDING FOR MAJOR COMPONENTS OF PROJECT INDICATED THAT FOREX FUNDS AVAILABLE WOULD BE INSUFFICIENT. IN MID-MARCH 1973, BANK MISSION VISITED KESC AND CONFIRMED COST OVERRUN PROBLEM AND NEED TO EXPEDITE AWARD OF CONTRACT FOR POWER PLANT EQUIPMENT. BANK SUBSEQUENTLY AGREED TO MODIFICATION OF ALLOCATION OF SPECIAL FUNDS LOAN IN ORDER TO OOMEET PORTION OF GENERATING UNIT COSTS FOR 125 MW UNIT IN EXCESS OF FUNDS PROVIDED UNDER ORDINARY CAPITAL LOAN. (LOWER BIDDERS FOR POWER PLANT EQUIPMENT WERE CONSORTIUM COMPOSED OF HITACHI, JAPAN, AND BROWN BOVERI CORP., GERMANY -- BOTH FROM COUNTRIES ELIGIBLE FOR PROCUREMENT FINANCED BY SPECIAL FUNDS. CONSULTANT SELECTED WAS KULJIAN CORPORTATION, PHILADELPHIA.) HOWEVER, IF SUPPLEMENTARY LOANS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 12622 01 OF 02 091205Z

ARE APPROVED, IT WILL NOT BE NECESSARY TO MODIFY ALLOCATION UNDER ORIGINAL SPECIAL FUNDS LOAN. PROCURE-
MENT UNCHANGED AS AWARDS EITHER MADE OR BID TENDERS
ISSUED OR BEING EVALUATED.

4. REASONS FOR COST OVERRUN ARE COMPLEX. BANK MISSION AND KESCO STAFF STATISTICAL ANALYSIS PROVIDES FOLLOWING ROUGH EUMIMATES OF REASONS FOR COST OVER-

RUN.RE THERMAL PLANT AND RELATED EQUIPMENT, HALF OF FOREX OVERRUN ATTRIBUTABLE TGKCURRENCY REALIGNMENTS UNDERWAY IN 1972 AND FORMALIZED IN 1973, WHICH AFFECTED LOWEST YEN AND DEUTSCHEMARK BIDS; OTHER HALF DUE TO PRICE ESCALATION OF THERMAL PLANT EQUIPMENT -- WELL ABOVE PRICES FOR EARLIER KORANGI UNITS #1-#3, AND ACCENTUATED BY LIMITED BIDDING FOR UNIT #4 IN OCT. 1972. RE TRANSMISSION AND DISTRIBUTION EQUIPMENT (WHERE PER ZNTAGE INCREASE OF COST OVERRUN IS LOWER), CURRENCY REALIGNMENTS ESTIMATED TO ACCOUNT FOR ABOUT TWO-THIRDS OF COST INCREASE AND PRICE INCREASES (ESPECIALLY FOR COPPER) ACCOUNT FOR REMAINING ONE-THIRD.

5. ON BASIS ORIGINAL LOANS, GOVT AND KESC OBLIGATED TO PROVIDE ANY ADDITIDMQRFFUNVBWXF CARRY OUT PROJECT. BANK ADVISES BOTH ATTEMPTED TO FIND OTHER SOURCES OF FOREX FINANCING TO MEET COST OVERRUNS. BILATERAL CREDIT OF \$1.5 MILLION WAS OBTAINED IN EARLY 1973 FROM CANADIAN INDUSTRIAL DEVELOPMENT AGENCY (CIDA) FOR DISTRIBUTION EQUIPMENT. KESC UNSUCCESSFUL IN OBTAINING CREDITS FROM OTHER SOURCES FOR TRANSMISSION AND DISTRIBUTION MATERIALS. DOCUMENT INDICATES GOVT UTILIZING MOST OF ITS POSSIBLE FOREX RESOURCES FROM BILATERAL SOURCES TO ASSIST IN REPAIRING DAMAGE CAUSED BY RECENT FLOODS. ADDITIONALLY, FLOOD DAMAGE PLACING STRAIN ON PAKISTAN'S OWN SCARCE FOREX RESOURCES. IN THESE CIRCUMSTANCES,GOVT REQUESTED SUPPLEMENTARY FINANCING FROM BANK TO COMPLETE PROJECT IMPLEMENTATION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 12622 02 OF 02 091202Z

12

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 DRC-01 /205 W

----- 078028

R 090846Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9074

INFO AMEMBASSY ISLAMABAD PRIORITY

AMCONSUL KARACHI PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 12622

USADB

6. ORIGINAL OVERALL PROJECT COST ESTIMATE WAS \$41.0 MILLION, OF WHICH \$26.5 MILLION WAS FOREX PORTION APPROVED FOR BANK FINANCING. REVISED COST ESTIMATE, WHICH WAS PREPARED IN SEPT. 1973 AND PROVIDES FOR ADDITIONAL 7-1/2 PERCENT PRICE ESCALATION CONTINGENCY, NOW \$69.5 MILLION, OF WHICH FOREX COMPONENT IS \$37.0 MILLION. TAKING INTO ACCOUNT \$1.5 MILLION CIDA CREDIT, REMAINING UNFINANCED FOREX COMPONENT PROPOSED FOR BANK FINANCING IS \$9.0 MILLION. ALL ADDITIONAL COSTS TO BE MADE AVAILABLE BY KESC OR GOVT.

7. BANK MANAGEMENT ASSERTS THAT ECONOMIC JUSTIFICATION FOR PROJECT REMAINS STRONG, AND PROJECT IS CONSIDERED LEASE-COST SOLUTION TO PROBLEM OF MEETING PROJECTED POWER REQUIREMENTS IN KARACHI AREA. AS RESULT INCREASE IN PROJECT COSTS, ECONOMIC LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 12622 02 OF 02 091202Z

INTERNAL RATE OF RETURN REDUCED FROM ORIGINAL 12.8 PERCENT TO 10.4 PERCENT. KESC'S FINANCIAL CONDITION FOLLOWING 15 PERCENT TARIFF INCREASE ON AUG. 1 CONSIDERED SATISFACTORY AND KESC IS NOW IN COMPLIANCE WITH ALL COMMITMENTS MADE IN EARLIER LOAN DOCUMENTS AND SIDE LETTERS. TO ASSESS POSSIBLE SUBSEQUENT NEED FOR FURTHER INCREASE IN KESC TARIFFS, PERHAPS IN 1975, AND/OR TO INJECT MORE EQUITY CAPITAL TO SUSTAIN ADEQUATE LEVEL OF CHASE GENERATION IN RELATION TO PLANNED INVESTMENT PROGRAM, KESC'S FINANCIAL CONDITION WILL BE MONITORED AND ITS FINANCIAL PROJECTIONS REVIEWED AGAIN IN 1974 IN COURSE OF PREVIOUSLY AGREED ANNUAL FINANCIAL CONSULTATIONS BETWEEN KESC AND BANK. (PARA. 3, SIDE LETTER TO PROPOSED SUPPLEMENTARY LOANS.)

8. USADB BELIEVES GOVT AND KESC APPEAR TO HAVE MADE SINCERE EFFORTS TO OBTAIN ADDITIONAL FUNDS NEEDED

TO CARRY OUT PROJECT, AS STIMULATED IN INITIAL
LOAN AGREEMENTS. HOWEVER, AS FLOOD EMERGENCY NEEDS
ARE ABSORBING FOREX RESOURCES AVAILABLE FROM
BILATERAL SOURCES, USADB PREPARED TO SUPPORT PROPOSAL
AND RECOMMENDS FAVORABLE NAC ACTION.

9. REQUEST ISLAMABAD/KARACHI COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE
119795 DATED 3 JULY 1972.
SULLIVAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVELOPMENT LOANS, ELECTRIC POWER PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MANILA12622
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731144/aaaabghn.tel
Line Count: 233
Locator: TEXT ON-LINE
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 07 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Jan-2002 by kelleyw0>; APPROVED <06 MAR 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ABD SUPPLEMENTARY LOANS FOR KARACHI ELECTRIC SUPPLY CORP. PROJECT (PAKISTAN)
TAGS: EAID, EFIN, PK, ADB, KARACHI ELECTRIC SUPPLY CORP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005